

Message Text

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SUBJ: CONGRESSIONAL INQUIRIES ON FOREIGN INVESTMENT IN
- EGYPT

REF: (A) STATE 109167, (B) CAIRO 3434, (C) 77 CAIRO A-198

1. WE ARE PROVIDING FOLLOWING INFORMATION
AS PARTIAL REPLY TO QUESTIONS POSED REF A. ADDITIONAL
DETAILS ON INVESTMENT BY COUNTRY OF ORIGIN, NOT PRESENTLY
AVAILABLE, WILL FOLLOW SEPTTEL.

2. LEVEL OF INVESTMENT. ACCORDING FIGURES PUBLISHED BY
GOE MINECON INVESTMENT AUTHORITY, TOTAL INVESTMENT IN
LAW 43 PROJECTS DESCRIBED AS BEING "IN PRODUCTION" AS OF
DECEMBER 31, 1977, WAS LE 379.3 MILLION. (NOTE: LE 1.00
EQUALS \$1.43 AT PARALLEL RATE.) THIS TOTAL IS BROKEN
DOWN AS FOLLOWS:

- CATEGORY	TOTAL INVESTMENT
-	(LE MILLIONS)
A. INLAND PROJECTS	281.3
B. PUBLIC FREE ZONE PROJECTS	37.3
C. PRIVATE FREE ZONE PROJECTS	60.7

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INLAND PROJECTS ARE FURTHER DIVIDED BY SECTOR IN INVEST-
MENT AUTHORITY STATISTICS AS FOLLOWS:

- SECTOR	LE MILLIONS,ROUNDED
A. INVESTMENT COMPANIES	98.6
B. BANKS AND BANKING INSTITUTIONS	40.20
C. TOURIST PROJECTS	48.65
D. HOUSING PROJECTS	.05

E. TRANSPORT PROJECTS	2.86
F. HEALTH PROJECTS	NIL
G. AGRICULTURAL PROJECTS	12.13
H. CONTRACTING PROJECTS	3.58
I. EDUCATION AND TRAINING PROJECTS	NIL
J. TEXTILE PROJECTS	2.06
K. FOOD AND BEVERAGE PROJECTS	1.10
L. CHEMICAL PROJECTS	13.53
M. ENGINEERING PROJECTS	2.72
N. BUILDING MATERIALS PROJECTS	49.99
O. METALURGICAL PROJECTS	1.45
P. PHARMACEUTICAL PROJECTS	NIL
Q. MINING PROJECTS	3.138

3. IT SHOULD BE NOTED THAT THE MOST SIGNIFICANT FIELD FOR AMERICAN INVESTMENT IN EGYPT AT PRESENT TIME IS PETROLEUM SECTOR. INVESTMENTS IN THIS AREA DO NOT FALL UNDER LAW 43, BUT ARE SUBJECT TO SEPARATE PETROLEUM SECTOR LEGISLATION. OUR ESTIMATE IS THAT INVESTMENT BY U.S. COMPANIES IN ACTUAL PRODUCTION FACILITIES FOR PETROLEUM AMOUNTS TO APPROXIMATELY U.S. \$500 MILLION. (THIS SUM DOES NOT INCLUDE ROUGHLY \$400 MILLION AMOUNT SPENT SINCE 1973--MUCH OF IT FOR CONTRACTOR SERVICES-- ON EXPLORATION.) WE ARE HERE MAKING REFERENCE TO PETROLEUM INVESTMENT, BUT IN VIEW OF ITS SPECIAL CHARACTER ON LOCAL SCENE, WE DO NOT TAKE INTO ACCOUNT THIS FIELD IN UNCLASSIFIED

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REMAINDER OF THIS MESSAGE.

4. AS PREVIOUS MESSAGES HAVE INDICATED, GOE HAS MOVED IN RECENT YEARS GENERALLY TO LIBERALIZE EGYPTIAN ECONOMY, AND MOST OF STEPS TAKEN HAVE BEEN SIGNIFICANT IN ENCOURAGING LOCAL PRIVATE ENTERPRISE. OF CARDINAL IMPORTANCE IS LAW 43 ITSELF, MANY BENEFITS OF WHICH ARE NOW, AFTER REVISION IN 1977, AVAILABLE TO LOCAL INVESTORS USING LOCAL CAPITAL. SPECIFIC MEASURES INCLUDE CREATION OF PARALLEL MARKET WITH MECHANISM FOR PRIVATE SECTOR INDUSTRIALISTS TO GAIN ACCESS TO FOREIGN CURRENCY TO MEET IMPORT REQUIREMENTS OF THEIR BUSINESSES. RECENTLY, FOR MANY CATEGORIES OF GOODS, INCLUDING LEATHER AND WOODWORKING ITEMS, EXTENSIVELY USED BY ARTISANS AND SOME SMALL FIRMS, GOE LIFTED REQUIREMENT FOR IMPORT LICENSE AND PERMITTED DIRECT OPENING OF LETTERS OF CREDIT WITH BANKS. OTHER MEASURES OF IMPORTANCE IN STIMULATING PRIVATE SECTOR INCLUDE CREATION OF OWN-EXCHANGE IMPORT SYSTEM; LIBERALIZATION OF LAWS GOVERNING HOLDING AND TRANSFER OF FOREIGN CURRENCY (LAW 97 OF 1976); PERMITTING PRIVATE SECTOR TO ACT AS AGENTS FOR FOREIGN FIRMS; AND POLICY OF GRANTING MINING LICENSES TO PRIVATE

INDIVIDUALS AND COMPANIES. GOE HAS ALSO ACTED TO STRENGTHEN AND INCREASE INDEPENDENCE OF DEVELOPMENT INDUSTRIAL BANK WHICH LENDS TO PRIVATE SECTOR ENTREPRENEURS. AID AND IBRD ARE ASSISTING IN THIS EFFORT BY PROVIDING LOAN FUNDS.

5. WITH REGARD TO DENATIONALIZATION, THERE CONTINUES TO BE SUBSTANTIAL DISCUSSION IN PRESS AND WITHIN GOE ABOUT CONCEPT OF SELLING SHARES IN GOVERNMENT COMPANIES (SOME OF WHICH ALREADY HAVE A DEGREE OF NON-GOVERNMENTAL OWNERSHIP) ON A SIGNIFICANT SCALE TO PUBLIC AT LARGE. WE ARE NOT AWARE OF ANY MAJOR STEPS YET TAKEN ACTUALLY

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TO IMPLEMENT THIS POLICY, BUT PLANNED REACTIVATION OF EGYPTIAN STOCK MARKET IS ONE MEASURE THAT SHOULD MAKE DENATIONALIZATION PROCESS EASIER TO ACCOMPLISH. CAIRO 11315 REPORTED WHAT APPARENTLY AMOUNTS TO DENATIONALIZATION OF AUTO ASSEMBLY PORTION OF EL NASR AUTOMOTIVE COMPANY, A TYPE OF MOVE WHICH OTHER PUBLIC SECTOR FIRMS MAY EMULATE. WE NOTE ALSO RECENT GOE EFFORTS TO COMPLETE PROCESS OF DESEQUESTRATION OF PROPERTY, WHICH MAY ENCOURAGE PRIVATE SECTOR CONFIDENCE. (SEE CAIRO 5626).

6. AREAS FOR POSSIBLE EXPORT EXPANSION BY PRIVATE SECTOR INCLUDE AGRIBUSINESS (BOTH FRESH AND PROCESSED FOODS); ALUMINUM PRODUCTS; LOCALLY ASSEMBLED ELECTRONIC PRODUCTS; AND PERHAPS CHEMICALS. SUBSTANTIAL QUANTITIES OF PLASTIC SHOES AND HANDICRAFT ITEMS ARE NOW EXPORTED TO EASTERN BLOC COUNTRIES UNDER TERMS OF (BARTER) TRADE AGREEMENTS. IT IS QUESTIONABLE, HOWEVER, WHETHER SUCH

GOODS COULD COMPETE IN HARD CURRENCY MARKETS, IN VIEW OF, INTER ALIA, INADEQUATE QUALITY CONTROLS, A GENERAL PROBLEM WHICH EGYPTIAN INDUSTRY FACES IN ITS EFFORTS TO EXPAND EXPORTS.

7. EGYPT LACKS WIDE RANGE OF SPECIFIC EXPORT INCENTIVES
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SUCCESSFULLY EMPLOYED BY STATES SUCH AS SINGAPORE AND TAIWAN, BUT GOE IS GIVING INCREASING ATTENTION TO THIS MATTER, AND EGYPT-US BUSINESS COUNCIL HAS SET UP SPECIAL TASK FORCE ON EXPORT PROMOTION MEASURES. MUCH OF LAW 43, IT SHOULD BE NOTED, ESPECIALLY SECTIONS DEALING WITH CREATION AND ACTIVATION OF FREE ZONE AREAS, IS DESIGNED ENCOURAGE DEVELOPMENT OF EXPORT-ORIENTED INDUSTRIES. IMPEDIMENTS TO GREATER VOLUME OF EXPORTS INCLUDE, IMPORTANTLY, EXISTENCE OF EXTENSIVE EXPORT LICENSING REQUIREMENTS. LIKE OTHER COUNTRIES, EGYPT ALSO FACES PROBLEM OF CONFLICT BETWEEN OBJECTIVE OF EARNING HARD CURRENCY THROUGH EXPORTS AND THAT OF MAINTAINING LOW PRICES AND EASY AVAILABILITY OF GOODS FOR DOMESTIC MARKET. THIS CONFLICT WAS POINTED UP IN RECENT PEOPLES ASSEMBLY DEBATE, WHEN COMPLAINTS ABOUT SHORTAGES OF FRUITS AND VEGETABLES TRIGGERED CALLS FOR MORE RIGOROUS ACTION BY GOE TO CONTROL EXPORTS OF THESE ITEMS.

8. POSSIBILITIES CERTAIN EXIST FOR COOPERATION BETWEEN ARAB AND U. S. INVESTORS ON INDIVIDUAL PROJECTS. ARAB ALUMINUM COMPANY (LARGELY KUWAITI-OWNED, WITH SOME U. S. EQUITY PARTICIPATION AND USING U. S. TECHNOLOGY) IS ONE EXAMPLE OF THIS TYPE OF COOPERATION. OUR IMPRESSION, HOWEVER, IS THAT WITH A FEW EXCEPTIONS --SUCH AS ARAB ALUMINUM AND A KUWAITI-OWNED CARPET FACTORY IN THE DELTA--BULK OF PRIVATE ARAB INVESTMENT IN EGYPT HAS BEEN IN REAL-ESTATE RATHER THAN IN INDUSTRIAL ENTERPRISES. SPECIAL MENTION SHOULD BE MADE OF THE MISR-IRAN DEVELOPMENT BANK, WITH EGYPTIAN AND IRANIAN CAPITAL, WHICH IS AMONG MOST ACTIVE INVESTMENT INSTITUTIONS HERE AND IS ASSOCIATED IN SEVERAL VENTURES WITH WESTERN INVESTORS. CONCEPT OF TRIANGULAR INVESTMENT PROJECTS
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INVOLVING OPEC ARAB FUNDS, U. S. TECHNOLOGY AND EGYPTIAN LAND AND LABOR HAS FOR SEVERAL YEARS ATTRACTED ATTENTION HERE, BUT NO FORMAL IMPLEMENTATION PROGRAMS

HAVE THUS FAR COME INTO BEING. EILTS

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